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Agenda Item 6b

August 16, 2011

TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

I. SUBJECT: Retirement Contract Activity Report

II. PROGRAM: Retirement

III. RECOMMENDATION: Information Only

IV. ANALYSIS:

The purpose of this item is to provide the Benefit and Program Administration Committee with statistics regarding historical retirement contract activity over the last five years, and to illustrate current pension reform efforts undertaken by public agency employers as a result of the economic downturn.

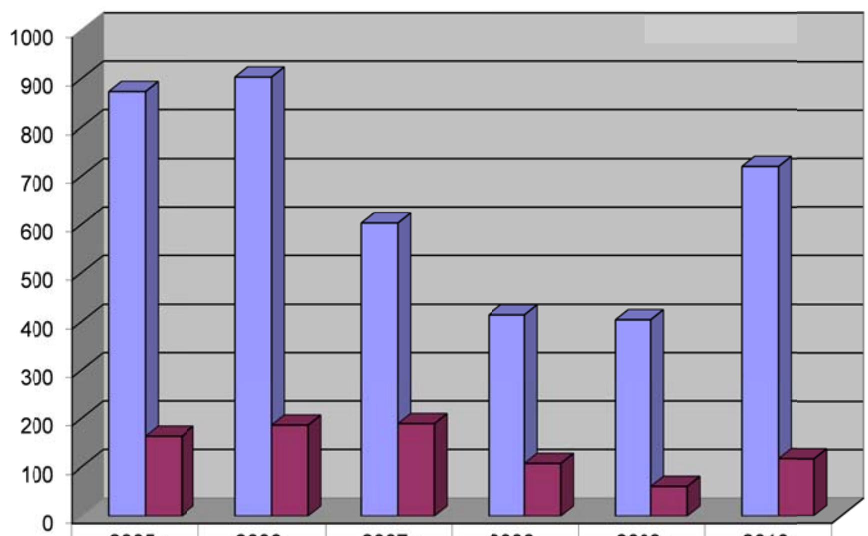
As of June 30, 2011, CalPERS had 1,486 retirement contracts which provided retirement, death, and survivor benefits for participants of 4 school district offices, 449 cities and towns, 36 counties, and 997 special districts and other public agencies. In addition, there are 57 County Offices of Education contracts which provide benefits for 1,490 school districts and charter schools, bringing the total number of contracts to 1,543 and the total number of employers to 3,033.

Retirement contracts vary depending upon the member categories covered, the formula the agency elects to provide, and the optional benefit provisions selected from the group of 55 benefits. These optional benefits may be provided at the time the original contract is established or they may be added later through the contract amendment process.

The Customer Account Services Division (CASD) provides on-going retirement contract assistance to public agencies and school employers including, new agency contracts, contract amendments, contract mergers and contract terminations. One of CASD's strategic goals is to enable and educate employers to make informed decisions leading to a predictable and secure retirement future.

If an agency is considering an amendment to an existing retirement contract in which there is an impact on the employer contribution rate or employee contribution rate, an actuarial valuation is required. For amendments that require a valuation, the chart on the following page shows the relationship between the number of amendment valuations requested, and the number of contract amendments actually implemented. Although many agencies request cost information and receive an actuarial valuation, a majority of them, after receiving the actuarial valuation, decide to no longer pursue the amendment. The number of amendment valuations requested and the number of contracts amended were on a downward trend from 2006-07 thru 2009-10. However, in fiscal year 2010-11, the number of amendment valuations requested increased by 78% over the previous fiscal year. This was due in large part to an increased interest in establishing Second Tiers for new hires. The number of amended contracts increased as well in 2010-11, but is still below the 2005-06 thru 2007-08 levels.

Amendment Valuations vs. Amendments



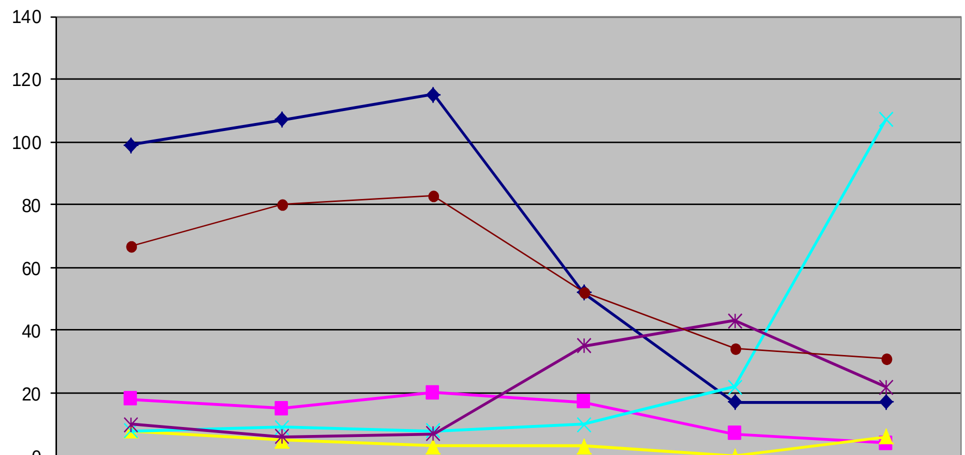
	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
Amendment Valuations Requested	873	903	603	414	404	720
Amendments	163	186	189	107	61	117

Fiscal Year

The “type” of contract amendment activity (i.e., formula improvement, one-year final compensation, Second Tier, etc.) has changed over the last five years. As indicated in the following chart, formula improvements reached their peak in fiscal year 2007-08, but since that time, have declined significantly due to the economic downturn. Amendments to provide for one-year final compensation periods rather than a three-year final compensation period have also decreased during the last two years. Many of the amendments involving benefit improvements currently taking place are a result of previously negotiated collective bargaining agreements.

Many agencies are currently seeking advice on potential cost saving measures to help them find financial relief from the market downturn and budgetary concerns. Three ways in which agencies may accomplish cost savings are by amending their retirement contracts to: 1) share the cost of an optional benefit with their employees; 2) provide Second Tiers for new hires; and, 3) provide two years of additional service credit (Golden Handshake). As the chart below illustrates, few employers include cost sharing in their retirement contracts. Through our discussions with employers, we have found that many agencies employ cost sharing via independent agreements outside the retirement contract, which is an acceptable practice. The chart also shows that there has been an increase in Second Tiers for new hires and Golden Handshake provisions over the past three years. Amendments for Second Tiers have increased dramatically, with more amendments occurring during fiscal year 2010-2011 than in the past five fiscal years combined.

Contract Amendment Types



	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
Formula Improvements	99	107	115	52	17	17
1 Yr Final Comp	18	15	20	17	7	4
Cost Sharing	8	5	3	3	0	6
Second Tier	8	9	8	10	22	107
Golden Handshake	10	6	7	35	43	22
Other	67	80	83	52	34	31

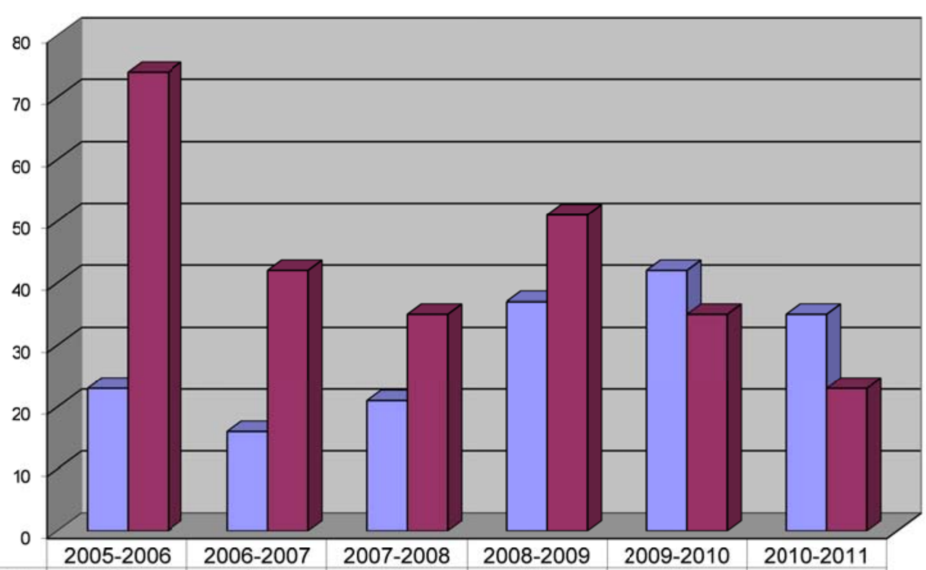
*Other = optional benefits such as death benefits, service credit purchases, and contract exclusions.

Fiscal Year

Government Code section 20475 allows a contracting agency to amend its contract or previous amendments to its contract, without election among its employees, in order to reduce benefits, terminate provisions that are available only by election of the agency to become subject to those provisions, to provide different benefits or to provide a combination of those changes with respect to service performed after the effective date of the contract amendment. Agencies amending their contracts to provide for Second Tiers for new hires (the most prevalent type of amendment) tend to be cities, towns or special districts, particularly water, sanitation, irrigation and fire districts, which have experienced a decrease in their tax base due to the economic downturn. Since 2008-09, 105 agencies have implemented a total of 139 contract amendments involving Second Tier for new hires.

Government Code section 20903 (Golden Handshake) allows an agency to amend its contract to provide two years of additional service credit to eligible members who retire during a designated window period when certain requirements are met. Window periods which span 90 – 180 days can be established at the time the contract is amended or at a later date. The chart below indicates the number of window periods that have been established over the past five years by public agencies and schools. In recent years, public agencies have tended to utilize the Golden Handshake as a cost saving measure much more frequently than in prior years, while Schools are using the Golden Handshake less frequently.

Golden Handshake Window Periods Established



	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
Public Agency Window Periods	23	16	21	37	42	35
School Window Periods	74	42	35	51	35	23

Fiscal Year

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In summary, agency utilization of cost saving measures has increased since the economic downturn began in 2007-2008. The number of agencies amending their contracts for benefit improvements has decreased, while the utilization of cost saving measures such as implementation of Second Tiers for new hires has increased, as agencies seek financial relief from the market downturn and budgetary concerns.

V. STRATEGIC PLAN:

This item is not a specific product of the Strategic or Annual Plans, but is part of the regular and ongoing workload of the Customer Account Services Division and other affected divisions.

VI. RESULTS/COSTS:

None

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